

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 L-02 H-02 USIE-00

CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02 OPIC-03

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SUBJ: US BUSINESS SITUATION IN PORTUGAL

REF: (A) LISBON 1368; (B) LISBON 596; (C) LISBON 1925;
(D) LISBON 1752

SUMMARY: US BUSINESS SITUATION IN PORTUGAL REMAINS OUT-
WARDLY CALM ALTHOUGH NERVOUSNESS HAS INCREASED AND SEVERAL
FIRMS ARE SERIOUSLY WEIGHING DEPARTURE DECISIONS. PRODUCTION
CONTINUES RELATIVELY NORMAL. AS YET UNDETERMINED NEW CREDIT
POLICY OF THE NATIONALIZED BANKING SYSTEM WILL BE CRITICAL;
SUPPLIER PAYMENT TERMS ARE TIGHTENING. END SUMMARY.

1. PRODUCTION IN US PLANTS IS APPARENTLY CONTINUING,
ALTHOUGH AT THE REDUCED RATES OF PRODUCTIVITY--WHICH HAS
BECOME NORMAL SINCE APRIL 25, 1974. EMBASSY IS AWARE OF
ONLY TWO SERIOUS PROBLEMS. MUELLER MONTAGEM TAKE-OVER BY
WORKERS REMAINS UNRESOLVED (REF C). EMBASSY HAS ALSO LEARNED
OF LOCK-OUT OF 8 SECOND-LEVEL MANAGEMENT PERSONNEL (2 US AND
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6 PORTUGUESE) AT ITT SUBSIDIARY, IMPRIMARTE, WHICH EMPLOYS

350 IN PRINTING YELLOW PAGES. LOCK-OUT, WHICH DOES NOT AFFECT CHIEF EXECUTIVE OFFICER (PERUVIAN), IS IN SUPPORT OF WORKER'S DEMAND FOR WAGE INCREASES AND RECTIFICATION OF OTHER MINOR GRIEVANCES. ITT EXECUTIVES FROM LISBON AND BRUSSELS REPORT DISPUTE, WHICH HAS RECEIVED NO PUBLICITY, MAY BE CLOSE TO RESOLUTION. NEGOTIATIONS OVER LAY-OFFS AT 600-MAN AUDIO MAGNETICS PLANT APPEAR TO BE PROGRESSING FAVORABLY. MANY US MANAGERS CONTINUE COMPLAIN ABOUT MINOR PROBLEMS WHICH INTERFERE WITH EFFICIENT AND EFFECTIVE MANAGEMENT.

2. ONLY ONE US FIRM, HERTZ, HAS ANNOUNCED DEPARTURE. LIQUIDATION, DUE PRIMARILY TO TOURISM DECLINE AND HIGHER COSTS, THUS FAR IS PROGRESSING QUIETLY. AT LEAST TWO US PETROLEUM FIRMS (TEXACO AND CHEVRON), WHICH HOLD OFF-SHORE EXPLORATION CONCESSIONS, ARE DISCUSSING WITH GOP POSSIBLE DELAYS IN DRILLING PROGRAMS. WHILE CASH SHORTAGES AND TECHNICAL DIFFICULTIES CAN BE CITED AS PARTIAL CAUSES FOR DELAY REQUEST, POTENTIAL THREATS TO THEIR INVESTMENT FROM NATIONALIZATION-MINDED GOVERNMENT IS BASIC FACTOR. A THIRD US PETROLEUM CONSORTIUM COULD DEPART, HOWEVER, DRY HOLES APPEAR TO BE CHIEF REASON. BLUE BELL, ASSEMBLER OF JEANS EMPLOYING 300, IS CONSIDERING DEPARTURE DUE TO CHANGE IN BANK POLICY (SEE BELOW). SEVERAL OTHER FIRMS ARE AWAITING OUTCOME OF ELECTIONS AND THEIR REPERCUSSIONS BEFORE TAKING FUNDAMENTAL DECISIONS ON THEIR FUTURE IN PORTUGAL.

3. REPRESENTATIVES OF CITICORP AND MORGAN GUARANTY REPORT THAT A MEETING OF THE 12 BANK CONSORTIUM WAS SCHEDULED FOR LAST WEEK TO DISCUSS POSSIBLE CANCELLATION OF \$150 MILLION STANBY CREDIT TO GOP. EMBASSY HAS NO INFORMATION YET ON RESULTS. OTHER US BANKS ARE REVIEWING INDIVIDUAL CREDIT POLICIES TOWARD PORTUGAL. EMBASSY KNOWS OF ONE SMALL CREDIT GRANTED AFTER MARCH 11 BY A US BANK BUT IT WAS GUARANTEED BY A THIRD COUNTRY BANK.

4. EXPECTED CHANGES IN POLICIES OF THE NATIONALIZED BANKING SYSTEM COULD BE CRITICAL FACTOR TO THE CONTINUED OPERATIONS OF MANY FIRMS. THESE FIRMS HAVE USED LOCAL OVER-DRAFT FACILITIES AND SHORT-TERM LENDING TO COVER CURRENT COSTS. SOME US MANAGERS REPORT THAT THEIR PARENT FIRMS WOULD NOT LIMITED OFFICIAL USE

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PROVIDE FINANCING SHOULD LOCAL CREDIT BE RESTRICTED. THUS FAR, IT APPEARS THAT CREDIT POLICY CONTINUES UNCHANGED ALTHOUGH THERE ARE RUMORS THAT A CREDIT CUT-OFF TO MNCS IS IMMINENT. ONE FIRM HAS BEEN ASKED BY ITS BANK TO PRESENT A REPAYMENT PLAN FOR A \$1.5 MILLION LINE WHICH IT USUALLY ROLLS OVER. IN A RELATED AREA, A BANK POLICY CHANGE THREATENS THE CONTINUED EXISTENCE OF BLUE BELL OF PORTUGAL. ACCORDING TO FIRM'S EXECUTIVES TWO LISBON BANKS NOW REFUSE TO CONTINUE

POSTING A FINANCIAL BOND GUARANTEEING THAT IMPORTED PIECE
GOODS WILL BE ASSEMBLED AND RE-EXPORTED. THUS, BLUE BELL
IS LIABLE FOR IMPORT DUTIES (UNTIL GOODS RE-EXPORTED) OR
IT MUST ITSELF POST THE BOND--MEASURES WHICH ITS EXECUTIVES
SAY MAKE ITS OPERATIONS UNECONOMICAL.

5. PAYMENT TERMS FROM AT LEAST SOME US SUPPLIERS ARE
HARDENING. ONE LARGE US MANUFACTURER HAS ASKED ITS LONG-
TIMNFBWCENSEE FOR LETTER OF CREDIT BEFORE SHIPMENT.
EMBASSY CHECKS INDICATE THE FIRM IS PAYING ALL ITS BILLS
PROMPTLY. EMBASSY HAS NOT HEARD THAT US PARENT FIRMS ARE
TIGHTENING UP ON CREDIT TO SUBSIDIARIES.
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